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AICPA *Washington Report*

November 16, 1987, Volume XVI, Issue 37

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FEDERAL RETIREMENT THRIFT INVESTMENT BOARD

An interim regulation concerning the plan year for tax and accounting purposes for the administration of the Thrift Savings Plan for Federal employees was recently issued by the Federal Retirement Thrift Investment Board (see the 11/12/87 Fed. Reg., p. 43315). Under current law, the Thrift Savings Fund is required to have an annual audit by a certified public accountant. The new regulation establishes the Plan's plan year on a calendar-year basis, beginning on January 1 and ending on December 31 of the same year. The sole exception to this principle will be situations where the Board is subject to government financial requirements on a fiscal year basis. The interim rule is effective as of 11/12/87. Comments are requested by 12/15/87, and should be sent to James B. Petrick, Federal Retirement Thrift Investment Board, P.O. Box 18899, Washington, D.C. 20036. If additional information is needed after reading the interim rule, contact Mr. Petrick at 202/653-2573.

MANAGEMENT AND BUDGET, OFFICE OF

Additional guidance for auditors participating in single audits of Federal aid programs has recently been issued by the Office of Management and Budget. Enactment of the Single Audit Act, P.L. 98-502, required State and local governments receiving more than \$100,000 in Federal funds annually to have an audit made for that year, and governments receiving between \$25,000 and \$100,000 annually, to have a single audit made for that year, or to have an audit made in accordance with the Federal laws governing the programs. In response to the Act's requirement that the Director of OMB establish procedures and guidelines to implement the Act, OMB issued Circular A-128 in April, 1985. Since Circular A-128 has been in effect, questions have been raised concerning compliance testing, audit reports and issues concerning subrecipients. The new publication is in a question and answer format. Copies of the booklet, Questions and Answers on the Single Audit Provisions of OMB Circular A-128, "Audits of State and Local Governments," may be obtained by contacting the Financial Management Division, Office of Management and Budget, Washington, D.C. 20503, 202/395-3993. Questions or comments may also be directed to the above address.

SECURITIES AND EXCHANGE COMMISSION

Staff Accounting Bulletin (SAB) No. 72, which expresses staff views concerning the appropriate income statement classification of charges by utilities for disallowed costs or the costs of abandoned plants was issued by the SEC 11/12/87. According to the bulletin, the SEC staff believes that charges for abandonments and disallowances under the provisions of Statement of Financial Accounting Standards (SFAS) No. 90 should not be presented by the utility as extraordinary items. The agency staff also commented that charges should be classified as a component of income from continuing operations irrespective of whether they occur in a period to which SFAS No. 90 has been retroactively applied or a period which follows the initial adoption of the standard. SAB No. 72 is expected to be published in the Federal Register shortly.

TREASURY, DEPARTMENT OF

More than 4,000 long-standing tax shelter and commodity cases have been resolved by special procedures instituted by the IRS last spring, the IRS announced recently (see the 4/27/87 Wash. Rpt.). This figure represents about two-thirds of the cases; the remaining one-third have exercised their appeal rights. The IRS said, "This marks a complete turnaround from a year ago when one-third agreed to settle

and two-thirds continued to appeal." According to the IRS, settlements are being offered in shelter cases for 1982 and prior tax years and include coal mining, movies, cattle breeding, research and development and equipment leasing. The offers in the cases were "based on the merits of each shelter and will remain the same should taxpayers elect to appeal to a higher level, unless there are significant new factual or legal developments," the IRS said. Taxpayers involved in these shelters who have settled and paid tax owed or will pay before 12/31/87 can take the 65 percent deduction on their 1987 tax returns for personal interest paid in 1987, the IRS said. (The consumer interest deduction will drop to 40 percent in 1988, to 20 percent in 1989, to 10 percent in 1990 and to zero in 1991.) Taxpayers who have agreed to settle these special cases but who cannot pay in full should call the local IRS collection office to discuss alternatives, the IRS advised. Suitable alternatives "may include identifying assets, such as a car or securities, which can be readily sold or mortgaged to secure a commercial loan to pay taxes due," the IRS said. Taxpayers investing in the shelters have received or will receive a letter from the IRS, as will the taxpayers' representative of record. The taxpayer has 20 days in which to respond, after which the IRS will contact the taxpayer by telephone. When taxpayers agree with an offer, the IRS will mail appropriate reports and forms for execution, and if there are no other unagreed issues, the case will be closed. Those who disagree may go to appeals or may elect to go to court, but "they should not expect a better offer," the IRS stated.

The low-income housing credit allowable for certain Federally-assisted buildings acquired during a ten-year period are the subject of proposed and temporary regulations recently issued by the IRS (see the 11/3/87 Fed. Reg., pp. 42098-100 and pp. 42116-17). Passage of the Tax Reform Act of 1986 enacted a new low-income housing credit equal to the applicable percentage of the qualified basis of each qualified low-income building. Under the temporary and proposed regulations, the low-income housing credit is available to the acquirer of a qualified low-income building for which a special waiver is granted by the IRS. The waiver would be granted in order to avert an assignment of the mortgage secured by the building to the Department of Housing and Urban Development or the Farmers' Home Administration, or to avert a claim against a Federal mortgage insurance fund with respect to a mortgage which is so secured. The application for waiver must be filed by a taxpayer who has acquired the building by purchase or who has a binding contract to acquire the building. The regulations list the information required to complete the application for waiver. The regulations are effective for buildings placed in service by a taxpayer after 12/31/86. Comments and requests for a public hearing are sought by 1/4/88, and should be addressed to the Commissioner of Internal Revenue, ATTN: CC:LR:T (LR-62-87), 1111 Constitution Ave., N.W. Washington, D.C. 20224. If additional information is needed after reading the proposal, please contact Robert Beatson at the IRS at 202/566-3829.

SPECIAL: FDIC Chairman L. William Seidman Addresses AICPA Banking Conference

Noting that around two-thirds of the banks in this country already get opinion audits, FDIC Chairman L. William Seidman told the AICPA Twelfth National Conference on Banking 11/12/87 that the agency is considering a proposal to have each state nonmember bank above a certain size engage an independent public accountant to perform an opinion audit each calendar year. A review of the auditor's report and the management letter, Mr. Seidman said, would be conducted by the Bank's Board of Directors and noted in its minutes with copies of the report to be sent to the FDIC regional director. Banks smaller than \$100 to \$150 million in assets would be required to conduct "something less than an audit," according to Mr. Seidman, who stated that opinion audits were "not cost effective" for smaller banks. "We want to have CPAs help us as they help their clients," he told the group. Part of

the FDIC proposal includes notifying the agency when the Bank changes its independent auditor, he noted, and added that the agency was also considering requiring banks to show their auditors their bank examiner's report.

Mr. Seidman told the Conference that the FDIC would be looking to the profession to help define the scope and responsibility of a limited exam for small banks. "We can't or won't require a limited exam unless you CPAs put it forward as your product," he said. During a question and answer period, Mr. Seidman commented on a program begun last year where outside CPAs assisted the agency's auditors, saying that the program was "on hold" in lieu of the FDIC's new proposal. In response to another question, he said the agency was looking at going to total GAAP accounting, noting that there were few differences between GAAP and RAP for bankers. His own opinion, he said, was to "use GAAP in the preparation of financial statements and then bank regulators could make any necessary adjustments in the computation of capital requirements." Finally, Mr. Seidman advised the CPAs present to take advantage of Call Reports and Quarterly Banking Statistics available from the FDIC in their audits.

For further information contact Shirley Twillman or Joseph Petito at 202/737-6600.

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